

ECONOMIC
AND
SOCIAL COUNCILCONSEIL
ECONOMIQUE
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ECONOMIC COMMISSION FOR LATIN AMERICA

PROPOSAL FOR THE ESTABLISHMENT OF INTER-AMERICAN
ORGANIZATION FOR ECONOMIC CO-OPERATION, PRESENTED
BY THE URUGUAYAN DELEGATION.

The Government of the Eastern Republic of Uruguay submits
for the consideration of the Economic Commission for Latin
America the attached proposal for establishing the Inter-
American Organization for Economic Co-operation, whose
principal aims are:

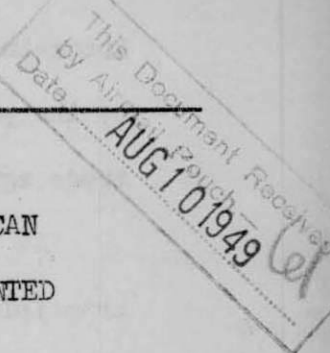
1. to facilitate the expansion of Inter-American trade
through the free convertibility of the currencies
of the participants and the advancing of credits on
open account,
2. to facilitate the development of production in the
participating countries through the organization of
a system of long term loans to be used for financing
plans to increase production.
3. to correct the structural disequilibria of the
economies and finances of the participating countries,
combat inflation, attain equilibrium in the balances
of payment and avoid devaluation of their currencies.

The objectives of this proposal are closely related to
the specific aims of the Economic Commission for Latin America,
as well as two specially important items on the provisional
agenda prepared for the Second Session; item 4 entitled
"Economic Situation and Prospects in Latin America" and
item 6, "Report of the International Monetary Fund of
Multilateral Compensation of International Payments".

The structure of the whole project is based on free
convertibility of the currencies of the participating countries
and multilateral compensation of their international payments.

This document has not been proofread and may be revised prior to
the publication of printed proceedings.

/The aim



The aim in applying these principles is to expand Inter-American trade, freeing it from the fetters imposed by the present international monetary situation and bilateral trade agreements.

As to free convertibility of currencies, the basic principles of the proposal are in agreement with Lord Keynes' ideas, as contained in the speech delivered before the House of Lords on 18 May 1943 in reference to the British plan: "The principal objective can be explained in a sentence: that money obtained through the sale of goods to one country may be spent for the purchase of goods from any other country. In technical parlance methods of multilateral compensation. In everyday language a universal currency usable for commercial operations in any part of the world."

The proposal corresponds, moreover, to the action taken by the Uruguayan Delegation at the IX Inter-American Conference when the creation of an Inter-American Bank was being considered.

The Uruguayan Delegation on that occasion expressed the opinion that, should the American countries reach an agreement for the establishment of a banking institution, its principal function should be to act as compensation agent for the carrying out of multilateral trade between the American countries and also such others as may join the system.

The proposed principles will allow the adaptation of the organization to an American regional system or to a wider one including other countries.

The expansion of Inter-American trade will moreover be stimulated by the special credits in open account which are called for in the proposal. This system will permit the easing of the quantitative restrictions imposed by countries whose deficits in the balance of payment do not exceed the limits

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established in Par. 7a. of the proposal.

The proposal also includes provisions which will allow the Agent of the Organization to act as an institution for the promotion of trade, informing all participants of the opportunities for the development of Inter-American trade.

Equilibrium in the balance of payment of the participants is one of the essential objectives of the proposed system but in no way implies a balance of the individual accounts of the participants among themselves. In a clearing system of the usual type, the central institution must possess a reserve fund equal to the total deficit which is allowed to accumulate in the individual accounts; but in the proposed system it will have no reserve fund of any type. The limits on credit and debit balances are established with the object of determining the time when special measures of an internal character must be applied in order to attain equilibrium in the balance of payments.

Although the organization will lack monetary reserves of its own and the participants may have debit balances within the limits established in the proposal, no delays in payments will occur. Creditors may collect their balances once they have advised the Fund as provided in Par. 21a., the duty of the representative of each country being to act as a true national compensation fund directly related to the issuing institution or Central Bank.

Though the system will allow greater freedom of trade between member countries, it will not imply the total and final disappearance of the present quantitative restrictions. On the contrary, in certain cases, their adoption or extension is required in order that the participating countries may reach equilibrium in their international accounts and avoid

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devaluation of their currencies.

The provisions of Paras. 7, 8, 11 & 12 answer this purpose, inspired by one of the essential aims of Agreements of the International Monetary Fund - "the stability of exchange rates" - as contained in Articles VII and XIV of this Agreement and in Article 21 of the Havana Charter.

In addition to the open account credits provided for by Para. 7 and other dispositions, the proposal includes a system of loans by the creditor countries to the debtors. These loans must be granted in an automatic manner as provided in Para. 8 and may only be employed in financing plans for increasing production and in investments of a productive nature. The basic objective of these is to attain economic equilibrium in the debtor countries.

The provisions referring to previous approval by the authorities of investment plans are designed to ensure the attainment of the ends which Para. 9 seeks to achieve and to prevent funds thus obtained from being invested unproductively and these loans from aggravating the unbalance of the international accounts of the debtor country during the period of interest service and amortization.

The methods for the attainment of equilibrium are applicable both to debtor and creditor nations. They are set forth in Para. 7, 8, 11 & 12 and their application is to be staged in two steps according to the importance of the debit or credit balances.

Ratification of the proposed agreement will not imply that participants may not enter into bilateral agreements of a non-discriminatory nature destined to promote trade. This possibility is clearly provided for in Para. 19.

The proposed organization will be of a temporary nature. In Para. 30 a period of five years is established, with the

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possibility of extension for a duration to be fixed, should circumstances indicate this to be advisable.

The administration of the Organization and the application of the Agreement will be entrusted to a Board made up of the Executive Directors of the International Monetary Fund and of the International Bank for Reconstruction and Development, subject to the assent of their respective Boards of Directors. In this way the proposal takes into account first the desire to make use of the long experience and recognized technical capacity of these two Institutions in the two essential aspects of the project; secondly, it respects the conception that it is unsuitable to form a wholly new organization for administering a system which is only to be applied temporarily, with the resultant initial inexperience and greater cost.

The proposal contains only such general principles as are necessary to outline the system of economic co-operation suggested by the Government of the Eastern Republic of Uruguay. These principles must be completed by including provisions similar to those of Article IX of the Charter of the International Monetary Fund and Article VII of the Charter of the International Bank for Reconstruction and Development.

PROPOSED CHARTER

Article 1. The countries subscribing to the present Charter agree to establish an International Organization operated according to the provisions set down in the following Articles and which will have the following main tasks:
to establish the free convertibility of their respective currencies; to reduce the disequilibrium of their balances of international payments; to encourage the expansion of their trade; to promote an increase in their production,

/and to establish

and to establish a special system of credits for the financing of their development plans.

Article 2. All the transactions carried out between the contracting parties, apart from those expressly excluded by this Article, will be entered by the Organization expressed in terms of their currency equivalence, in the accounts of these parties.

Transactions financed with credits granted according to the provisions of Article 9; or with credit received from the International Bank for Reconstruction and Development and the International Monetary Fund or with credits granted by the contracting parties outside of the provisions of the present charter, will not be entered in the accounts of the parties concerned.

Article 3. The balances of the contracting parties will be determined by the statements of their accounts on the last day of each month.

Article 4. The receipts of each contracting party resulting from the transactions carried out with one or several parties, will be freely available for transactions with any one of them, without discrimination of any kind.

Article 5. The monetary unit of the Organization will be the United States dollar of the weight and fineness legally valid on the 1st of July 1944.

The exchange rate between the currency of each contracting party and the monetary unit of Organization, as well as any change of this rate will be governed by the provisions of Article IV of the Agreement on

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the International Monetary Fund.

Article 6. The quota of each contracting party will be fixed every year by the Agent, it will be equal to the average of the surplus of his balance of payments with all other contracting parties over the last five years.

Article 7. When the average monthly debit balance in the account of any contracting party of the Organization is greater than 5 per cent of his quota for twenty-four consecutive months, or when this debit balance exceeds 10 per cent of his quota for a period of twelve months running, or at any time exceeds 20 per cent of his quota, the Agent will recommend taking action of an internal character relative to the country in question in order to:

- 1) Increase its exports;
- 2) Select and restrict its imports;
- 3) Regulate its capital transfers;
- 4) Correct the structural disequilibria in its economy and its finances.

The application of the measures taken in accordance with the above dispositions, may be abrogated, with the prior consent of the Agent, when the contracting party has succeeded in reducing the balance or average balance which had led to their adoption, to a figure not in excess of the percentages established in this Article for a period of twelve consecutive months, providing this reduction has been achieved through its own actions and resources, excluding loans rented under the terms of Article 9.

Article 8. When the monthly average surplus in the
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accounts of any contracting party in the Organization is greater than 5 per cent of his quota for a period of twenty-four consecutive months or when the total assets of this account are greater than 10 per cent of the quota for a period of twelve months, or at any time exceeds his quota by 20 per cent, the Agent will recommend that he adopt measures of an internal character relative to the country in question intended to:

- 1) Increase its purchases of goods and services from the other contracting parties;
- 2) To encourage the investment of capital in those countries;
- 3) Prevent or correct the expansionist disequilibria of its economy and finances.

The application of the measures adopted in accordance with the previous provisions may cease, with the approval of the Agent, when the contracting party has reduced the balance or average balance which resulted in their adoption, to a figure which does not exceed the percentages established in this Article, for a period of twelve months.

If, despite the adoption of these measures, the contracting party has been unable in the aforementioned time of twelve months to reduce his balance or average balance below the limits indicated, the Agent will arrange for the granting of loans from this party to those having debit balances in their accounts with the Organization.

Article 9. The total **amount** of loans to be granted by the contracting party having a credit balance will be equal to the amount of this balance at the time the Agent determines

/these loans

those loans should be made. The allocation of this amount will be made by the Agent. Debtor countries whose situation meets the conditions indicated in the first paragraph of Article 7 will have first call on these loans, up to the amount of their debit balances. If the amount of the loans is insufficient to cover these balances these loans will be allocated proportionately to these debit balances. If, none of the contracting parties meet the conditions specified the amount will be allocated among all countries having debit balances in proportion to these balances.

These loans will be entered by the Organization in special accounts opened for this purpose and will be documented by the delivery of bonds issued by the Organization and subscribed to by the lending countries. These bonds will carry the guarantee of the lending governments, under conditions to be determined by the Organization.

The countries receiving loans authorized through the preceding provisions, must use these exclusively in carrying out plans for the development of production or in productive investments which in the opinion of the Agent are acceptable.

Article 10. The amount of the loan made available to each contracting country in accordance with the provisions of Art. 9, will be reduced by the amount it exceeds his debit balance in

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the accounts of the Organization. It will also be reduced by such amounts as have not been applied to the uses specified in the respective Article. Such loans will be reallocated among the other parties having debit balances.

The same procedure will be followed with regard to loans which the recipient country desires to use according to the provisions of that Article but for which the previous approval of the Agent has not been obtained due to the absence of suitable investment plans.

Article 11. When the debit balance in the special account of any contracting party, covering loans obtained under the provisions of Article 9, is in excess of 25 per cent of its quota and this party carries a debit balance or an average debit balance in his account with the Organization exceeding the percentages established in Article 7 the Agent will request of this part:

- 1) That it adopt the measures listed in Art. 7 which it may not yet have adopted;
- 2) That it no longer make purchases from the other contracting parties without previous authorization from the Organization until the debit balance of its special loan account is less than 25 per cent of its quota or until it has reduced the debit balance or average debit balance which resulted in the application of these measures to a smaller percentage than that indicated in that Article, in both cases for a period of twelve consecutive months.

/The Organization

The Organization will notify such decision to the other contracting parties and will only authorize such imports as are vital to the maintenance and increase of its production, or to its essential needs.

Article 12. When the credit balance in the special account of any contracting party, due to loans granted under the terms of Art. 9, is greater than 50 per cent of its quota and this participant has a credit balance or an average credit balance in its account with the Organization in excess of the percentages indicated in Art. 8, the Agent will request of this party that it:

- 1) Increase its imports and adopt the necessary measures to secure equilibrium in its balance of payments with the other parties;
 - 2) Cease exports to the other parties unless granted the Agent's authorization. The Agent will only authorize exports which are of vital necessity for the other parties and which cannot be acquired in other countries.
- This provision will cease to be effective once its credit balance in the special account is less than 50 per cent of its quota or when the party has reduced the credit balance or average credit balance which resulted in the application of these measures, to a figure lower than the percentages indicated in that Article; in both cases for a period of twelve consecutive months.

Article 13. The Organization guarantees under the conditions
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established in the present Charter, the repayment to the contracting parties of the balances in their favor which they have on their accounts with other parties and of the amount of the loans granted under the terms of Art. 9.

Article 14. The Agent will decree the suspension of any contracting party under any one of the following circumstances:

- 1) Should it not maintain the free convertibility of its currency as provided in Art. 4;
- 2) Should it not grant the loans to parties with debit balances or should it not amortize the loans received in the manner stipulated;
- 3) Should it carry out transactions with parties which have been suspended without prior authorization by the Agent;
- 4) Should it carry on the books of the Organization a debit balance or an average debit balance greater than the percentages set down in Art. 7, and not make use of the loans available to it under the provisions of Arts. 9 and 10.

The Agent may decree the suspension of parties which do not adopt the measures recommended under the provisions of Art. 7, 8, 11 and 12.

Article 15. The suspension of a contracting party will be notified to the other parties and will entail the following effects:

- 1) The cessation of the Organization's guarantee relative to the balances in the party's favor which it may possess in its own individual accounts with other parties and the privilege of
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freely using these balances for transactions with the other parties;

- 2) That the credit balances which the suspended participant has in his individual accounts be applied in priority and by decision of the Agent to meeting the debit balances which he may in his individual accounts with other participants,

- 3) That the other participants may not carry out transactions with the suspended country in the absence of prior authorization from the Fund. The product of the imports which the Agent may authorize from a suspended country, will be utilized in priority for the amortization of outstanding loans contracted under the provisions of Art. 9 and to satisfy debit balances which it may owe to other participants, after the balancing of accounts called for in paragraph 2, unless there is previous agreement between the debtor and his creditors to proceed otherwise. The requirement of prior authorization of imports by the Agent will cease once the suspended party has covered the balances in his individual accounts with the other participants.

Article 16. Countries who retire from the Organization of their own free will must first cancel the debit balances they carry in their individual accounts with the other parties and may demand the immediate payment of their credit balances.

Article 17. The balances of the parties existing at the time the
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Organization starts operations will not be entered on its books and should be made the subject of special agreements.

Article 18. Each contracting party declares that under equal conditions it will give preference for imports and exports to the other contracting parties and undertake to adopt all measures tending towards the effective implementation of this principle.

Article 19. The ratification of the present Charter will not prevent the contracting parties from entering into bilateral agreements with other countries, whether parties in the Organization or not, which aim at increasing their trade. Such provisions of these agreements as may result in advantages for any country shall be extended to all the contracting parties.

Article 20. Each contracting party will supply the Organization, which in its turn will make available to the other parties, a monthly list of the quantities and prices of products available for export and of the requirements of its own internal consumption and of its provisions relating to commercial interchange.

Article 21. All payments between the contracting parties will be through their respective agents who will inform the Organization of such payments.

The Central Bank, Issuing Institution, Exchange Stabilization Fund or Treasury in the countries concerned may be designated as agents.

Article 22. The Organization will charge the contracting parties a commission on the volume of business handled through its accounts. The rate of this Commission will be fixed annually, by the Board of Directors, taking into account the expense

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budget of the Organization.

Article 23. The balances of the individual accounts of the parties to the Organization will bear interest at the rate of 3% per annum cumulative quarterly.

Article 24. Ratification of the present charter will end for each contracting party the credit limitations provided in the bilateral agreements it may have with other parties.

Article 25. The Organization will be managed by a Board composed of one delegate from each participating country. The delegates will be appointed for five years and may be reappointed and replaced. The Board will meet once a year. It will hold additional special meetings at its own discretion or at the request of the Executive Agent.

The duties of the Board of Directors are: to interpret the Articles of the Charter and regulate its application and the activities of the Agent; to approve the annual budget proposed by the Agent; to decide upon the place and time of its meetings and to propose any amendments to the present Charter.

The decisions of the Board shall be taken by a majority of the members.

Amendment of the Articles of this Charter shall require the approval of a two thirds majority of the Board and in addition the ratification provided in Art. 29.

Article 26. The function of Agent of the Organization will be exercised by a Council composed of the Executive Directors of the International Monetary Fund and the International Bank for Reconstruction and Development. The Executive Directors of the International Monetary Fund and the President of the

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International Bank for Reconstruction and Development shall act as Chairman of the Council alternately for a period of one month each.

Article 27. The duties of the Agent of the Organization are: to apply the provisions of the Charter and to carry out the decisions of the Board of Directors; to study the plans for developing production in the participating countries; to appoint and discharge the administrative staff and technical advisers of the Organization to prepare the annual expense budget; to propose to the Board of Directors suggested interpretations and regulations of the Charter and the rules governing the operation of the Organization.

All decisions of the Agent will be taken on a majority vote of the Board of Executive Directors.

Article 28. For the discharge of his duties the Agent will make use of his staff; to engage technicians and solicit the co-operation and advice of the United Nations Economic and Social Council and Regional Economic Committees, of the Inter-American Economic and Social Council and other technical organizations of an international nature on such aspects as may be appropriate. For this purpose he is granted the widest authority to make such agreements as he may consider advisable.

Article 29. The Organization will start operations when this Charter has been ratified by two thirds of the founding countries.

Admission to the Organization of any country, American or other, which is not a founder, will be effective only on approval of the Board and after ratification as provided in the first paragraph of this article.

/The ratification

The ratification provided for in this article must be effected through the proper constitutional channels in such a manner as to authorize the Executive Power of each participating country to adopt the measures called for by the Agent in accordance with the provisions of Arts. 7, 8, 11 and 12; to allow the appropriate loans in conformity with the provisions of Articles 8 and 9; to underwrite the bonds issued in accordance with the provisions of Article 9 and to authorize the guarantee of the State for the repayment of the loans which it has received and the amounts which it may owe through using the credits from which it benefits within the limits provided in the Charter.

Article 30. The organization will remain active for a period of five years as from the 1st January following the start of operations.

Before the end of this period, the Board of Directors, on the basis of the Agent's report, will ratify the Organization's dissolution or decide upon the length of time for which it should be extended.

In case of dissolution, the Board and the Agent will continue their functions during the period of time necessary to insure payment of the sums owed by the contracting parties in virtue of the provisions of the present Charter.

Montevideo, 24 May 1949

